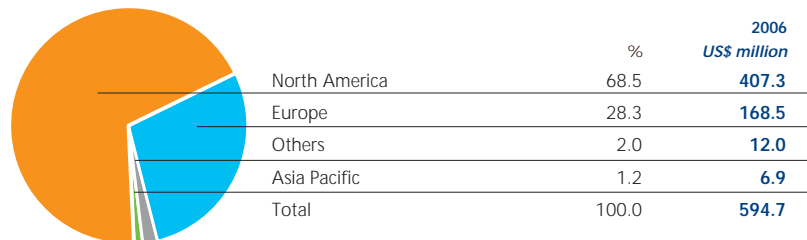


## Telecommunication Products

The TEL business returned to profitability in the financial year 2006, as a result of the successful implementation of the US rationalisation plan. The business also achieved continuous growth in Europe.

TEL Revenue by Region



The TEL business continued to execute its plan to rationalise its US operations during the financial year 2006. As a result of the successful implementation, the business returned to profitability, although revenue declined slightly by 2.9% over the financial year 2005 to US\$594.7 million. For the financial year 2006, the business accounted for 49.4% of Group revenue, as compared to 59.9% in the previous financial year.

The rationalisation of the US business during the financial year saw a further reduction in overheads and operating expenses. A comprehensive improvement programme was put in place to re-engineer all processes worldwide to increase efficiency. As a result, profitability of the US business was successfully turned around. Revenue was lower, however, as we streamlined our product lines and exited unprofitable businesses. In the financial year 2006, revenue in North America declined by 14.3% to US\$407.3 million.



While re-engineering the operations, the business worked on creating an entirely new product line-up, which was unveiled at the Consumer Electronics Show in Las Vegas in January 2006. The new product range aims to be much more closely aligned with the needs of VTech customers and consumers in North America with close attention paid to the phones' features to enhance their value proposition. More emphasis has also been placed on developing more distinct identities for the VTech and AT&T brands, to allow the Group to exploit its dual brand strategy more fully.

To strengthen VTech's competitiveness, the business has rationalised component usage and standardised technology platforms to achieve cost savings and ensure more cost effective products. The revamped product line has been gradually appearing on shelves since April 2006 and customers are in general supportive of the products, in particular of some of the 5.8GHz analogue models.

Considerable effort was also devoted during the financial year 2006 to strengthening marketing in support of the launch of the new product line-up. The marketing team in the United States created a new window box packaging design that is completely recyclable and is much easier for the consumer to handle than the standard clamshell. It was first launched to club stores in May 2006. VTech has applied to patent this design, which has made the Group more environmentally

friendly in the eyes of consumers and is pressuring competitors to follow its lead, adding to our legacy as a pioneer in the telecommunication products industry.

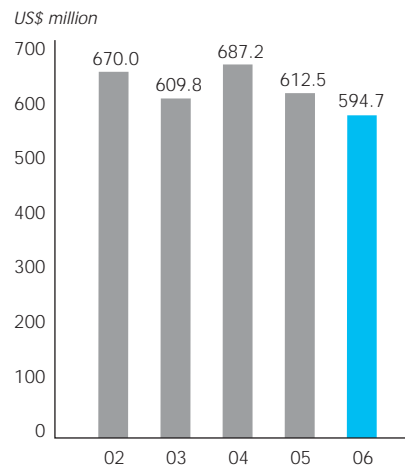
In the financial year 2006, the business in the United States also introduced a series of well designed print and online advertising campaigns. These were highly successful, winning considerable industry acclaim, including nationwide recognition "Campaign of the Week" from [www.adbumb.com](http://www.adbumb.com) and third place in the A.M.A. Max Award for Marketing Excellence for 2005.

Outside the US market, VTech continued to achieve growth in Europe, offsetting a large part of the sales decline in North America. Revenue in Europe rose by 49.4% to US\$168.5 million, representing 28.3% of the total TEL revenue.

Growth was recorded mainly in Western Europe, notably France and Germany. The Group also made good progress in penetrating new markets such as Scandinavia and Eastern Europe.

As national fixed line telephone operators and other incumbent players are still dominant in several major European markets, our business strategy will remain to supply cordless phones to these companies on an ODM basis. Our relationships with these customers have strengthened as they see the advantage to their businesses of having a reliable, cost effective and high quality ODM partner that has complied with the European environmental directive RoHS.

#### TEL Revenue in Last 5 Years



This strategy is ensuring a quicker expansion in the near term than pursuing one based on our own brand.

In the longer term, we remain convinced that the VoIP market will offer considerable opportunities as fixed line traffic moves to this new technology platform. However, we will phase our investment to ensure it matches the growth with actual consumer demand. Currently, the Group offers three VoIP phone models in North America in partnership with Vonage, North America's leading broadband telephone service provider, Skype, an eBay company which is the world's fast growing Internet communication software and Yahoo!, the world's leading Internet portal. The Skype and Yahoo! models are dual mode, allowing users to make and receive both fixed line and peer-to-peer VoIP calls.



The new window box packaging design



VTech DECT Cordless Phone with Colour LCD Display and SMS Function



Two Handset Expandable Internet Phone System with Caller ID